

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6656

BILL NUMBER: HB 1391

NOTE PREPARED: Jan 19, 2006

BILL AMENDED:

SUBJECT: Farm Mutual Insurance Company Taxes.

FIRST AUTHOR: Rep. Ripley

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides that a farm mutual insurance company may elect taxation under the Insurance Premium Tax.

Effective Date: January 1, 2006 (retroactive).

Explanation of State Expenditures: This bill will increase the administrative costs of the Department of State Revenue (DOR). The DOR will have to amend the tax forms, as well as update computer software. It is estimated that the provisions of this bill can be implemented within the existing level of resources available to the DOR.

Explanation of State Revenues: It is estimated that this bill will decrease Corporate Adjusted Gross Income (AGI) Tax collections. If this bill had been effective in taxable year 2004, the loss in Corporate AGI Tax collections would have been approximately \$200,000, and the gain in Insurance Premium (IP) Tax collections would be approximately \$85,000, resulting in a net loss of \$115,000 in state revenues.

This bill would allow farm mutual insurance companies to choose to be taxed either under the Corporate AGI Tax or the IP Tax. Currently, farm mutual insurance companies are only taxed under the Corporate AGI Tax. It is assumed that all farm mutual insurance companies would choose the tax treatment that would minimize their tax liability each year. There are currently 38 farm mutual insurance companies in the state.

The IP Tax rate is 1.3% on gross premiums received on policies covering risks in the state. The Corporate AGI Tax rate is 8.5%. Corporate AGI Tax is deposited in the state General Fund and the Property Tax Replacement

Fund. Therefore, it would be those funds that would lose revenue. IP Tax is deposited in the state General Fund, therefore some of the loss in Corporate AGI Tax revenue distributed to the state General Fund would be offset by the gain in IP Tax revenue.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Bob Walls, Department of State Revenue; Dan Benefiel, Department of Insurance.

Fiscal Analyst: Adam Brown, 317-232-9854.